



Request for City Council Committee Action from the Office of the Neighborhood and Community Relations Department

Date: June 8, 2015
To: Council Member Cam Gordon, Chair, Health, and Environment & Community Engagement Committee
Referral to: City Council
Subject: Guidelines for Expending Consolidated Tax Increment Financing (TIF) Funds

Recommendation: Staff recommends using Consolidated TIF funds for the next several years to support on-going operational costs of the Neighborhood and Community Relations (NCR) department and existing program funding obligations, as was determined in the 2015 budget process.

Staff is recommending no changes to the eligible uses until further work on Neighborhoods 2020 has been completed.

Department Information

Prepared by: David Rubedor, Neighborhood and Community Relations Director

Approved by: Spencer Cronk, City Coordinator_____

Presenters in Committee: David Rubedor

Previous Directives:

Staff Directives approved at November 17, 2014, HECE Meeting

- 1) Neighborhood & Community Relations staff directed to work with the Neighborhood & Community Engagement Commission developing recommendations for future expenditures of Consolidated TIF funds for neighborhood revitalization purposes.

Staff Directive approved at January 5, 2015, HECE Meeting (as discussed and referred from the City Council Budget hearing on December 11, 2014).

- 2) Directing the Neighborhood & Community Relations Department to provide guidelines for expenditures of Consolidated TIF funds for neighborhood revitalization purposes, using existing and previous policies, practices, and precedents, such as special uses like the Affordable Housing/Commercial Corridor Reserve Fund. A key feature that should be included from past guidelines is the requirement for neighborhood review and sponsorship. The guidelines should be specific for intended uses, be they special initiatives or larger scale activities such as Large Tract Development activities. Staff is to present this recommendation to the City Council no later than May 31, 2015.

Financial Impact: No financial impact to the 2015 City Budget.

Background: In 2009 the City Council adopted the original Consolidated Redevelopment Tax Increment Financing Plan (the "Consolidated TIF Plan") pursuant to authority in Minnesota Laws 2008, chapter 366, article 5, section 37. The Consolidated TIF Plan contained the following "Description of Development Program":

1. Target Center Debt
2. Neighborhood Revitalization Purposes: Tax increment from the Consolidated TIF District will support neighborhood revitalization purposes as may be defined by the City Council from time to time.

To provide property tax relief, the City Council adopted a 2011 modification to the Consolidated TIF Plan that included: 1) a reduction to the tax increment budget; 2) identification of the original tax capacity rates for the district; 3) reflection of the City's election to retain 100 percent of the captured net tax capacity of the district for taxes payable 2011, 50 percent for taxes payable 2012 and 2013, and 100 percent for taxes payable 2014 through 2020, and; 4) updated projections. The Development Program remained the same.

The 2011 modification reduced the overall Tax Increment Budget from \$163,800,000 to \$147,700,000 (gross tax increment generated) – this is the amount anticipated or projected to be received through the end of the TIF district in 2020, which is the mandatory expiration date.

In early 2014, projections for 2015 from the Consolidated TIF District were estimated to be \$12.4 million, approximately \$1.8 million higher than the amount provided in the TIF Plan. Of this increased amount, \$922,555 was allocated to neighborhood revitalization purposes after the 50:50 historical split for Target Center Debt. As part of the 2015 budget process, the Neighborhood and Community Relations Department (NCR) sought a budget recommendation to use these "surplus" funds for new activities. Rather, the City Council decided to use these funds for a number of NRP-eligible activities previously funded through the City's General Fund.

In late summer/fall of 2014, revised projections for the amount of gross tax increment projected to be generated from the Consolidated TIF District in 2015 was reduced to \$11.5 million. This updated projection equated to about \$850,000 over the original budget amount, with about \$425,000 available for neighborhood revitalization purposes.

Prior to identification of the revised projections, the 2015 recommendation and subsequent amendments increased the use of the TIF resources for non-Target Center uses to a total of \$6,649,384. This compares to the new projected amount available of \$5,730,000. The gap between the budgeted uses and the projected amount available after the 50:50 split with Target Center amounts to nearly \$920,000. This gap is filled by reducing the amount available for Target Center (deviation from 50:50 split) to provide funding for the on-going operational costs, mainly the budget for Neighborhood and Community Relations, thereby "freeing up" flexible General Fund resources.

For the 2014 adopted budget, the NCR budget was funded by 16.5% General Fund and 83.5% TIF and CDBG. For 2015, the NCR budget was adopted with the General Fund comprising merely 6.3% from the General Fund and the remaining 93.7% from TIF and CDBG. This swing reflects a shift of about \$1.1 million, or a total use of TIF for 2015 of \$6.2 million compared to \$5.1 in 2014. Many of the new uses of the TIF funding are for on-going expenditures, which may be problematic in that the Consolidated TIF funding is

limited by collection cap and time, versus on-going funding typically associated with base General Fund resources.

For the 2016 budget, it is anticipated that about \$7.0 million in TIF resources will be needed to provide for current service levels, compared to an estimated amount available of \$6.2 million assuming the 50:50 split with Target Center, which results in a shortfall in revenue of \$800,000. This disparity in need versus funding is projected through 2018, along with the need for “extra” resources to repay the earlier deviation in 50:50 funding for Target Center debt (\$920,000).

Budgetary shifts during the 2015 budget process to utilize time/amount-limited resources to free-up levy capacity resulted in reliance on resources for departmental operations and existing funding obligations that will not provide for surplus/flexible funds for several years.

Community Impact: This recommendation has low community impact. The staff recommendation is to continue with existing budget decisions and previously defined uses for the TIF.

Due to 2015 budget decisions, the Consolidated TIF funds will not provide for surplus/flexible funds for several years. Previous notions that “extra revenues” would be generated, thus creating opportunities for other types of projects and programs, has not materialized. Budgetary shifts moving NCR from the General Fund to the TIF revenues has obligated funds for ongoing operations and obligations.

Existing Neighborhood Revitalization Purposes: The December 18, 2009, Consolidated TIF Plan defines Neighborhood Revitalization Purposes as: Tax increment from the Consolidated TIF will support neighborhood revitalization purposes as may be defined by the City Council from time to time. At the time this TIF plan was drafted it was anticipated that “neighborhood revitalization purposes” may include:

- 1) A Neighborhood Investment Fund [now referred to as the Community Participation Program, providing support directly to neighborhood organizations and their funding priorities,
- 2) A Community Innovation Fund, which will be a competitive fund given directly to neighborhoods to support City priorities [adopted April, 2015], and
- 3) The administrative costs of the City’s Neighborhood and Community Relations Department that are related to Neighborhood Revitalization Purposes.

Uses considered to be “neighborhood revitalization purposes” should meet the definition in City ordinances (Chapter 419.55):

1. To eliminate blighting influences by acquiring and clearing or rehabilitating properties that the city finds have caused or will cause a decline in the value of properties in the area or will increase the probability that properties in the area will be allowed to physically deteriorate.
2. To assist in the development of industrial properties that provide employment opportunities paying a livable income to the residents of the neighborhood and that will not adversely affect the overall character of the neighborhood.
3. To acquire, develop, construct, physically maintain, rehabilitate, renovate, or replace neighborhood commercial and retail facilities necessary to maintain neighborhood vitality.

4. To eliminate health hazards through the removal of hazardous waste and pollution and return of land to productive use, if the responsible party is unavailable or unable to pay for the cost.
5. To rehabilitate existing housing and encourage homeownership.
6. To construct new housing, where appropriate.
7. To rehabilitate and construct new low-income, affordable rental housing.
8. To remove vacant and boarded up houses.
9. To rehabilitate or construct community-based nonprofit and public facilities necessary to carry out the purpose of the neighborhood revitalization program.
10. To promote neighborhood safety and stability through community crime prevention programs and activities such as neighborhood block and police patrols, block clubs and community outreach.
11. To cover administrative costs of neighborhood organizations attached to implementation of strategies contained in approved neighborhood action plans.
12. To provide a safe and healthy environment for neighborhood residents, provide for the self-sufficiency of families, and increase the economic and social stability of neighborhoods.

In addition, eligible uses of TIF funds are further defined by the Community Participation Program to include:

1. Identifying and Acting on Neighborhood Priorities. As partners in building a better city and creating vibrant, safe, welcoming and livable spaces, neighborhood organizations and the City each have unique roles in identifying and acting on neighborhood priorities. Neighborhood organizations will from time to time prepare and submit Neighborhood Priority Plans as a way of directing neighborhood CPP project funds or providing input to City plans and budgets.
2. Influencing City Decisions and Priorities. City decision-making is improved when we involve those most affected by these decisions. The City's core principles of community engagement state that those who are affected by a decision have a right to be involved in the decision-making process. Through partnering with neighborhood organizations, the City of Minneapolis can better reach—and be informed by—the people who are most affected by City decisions.
3. Increasing Involvement. The City and neighborhood organizations are better able to develop meaningful strategies—and successfully implement those strategies—when more people are informed and involved. The City and neighborhood organizations will work to maximize the involvement of residents and other stakeholders.

Neighborhoods 2020: The first objective in the department's Blueprint for Equitable Engagement is Neighborhoods 2020 – Clarifying the Role and Expectations of Neighborhood Organizations with Measurable Performance Standards. The NCEC and the department are working together to review the role of neighborhood organizations, NCR staff support, potential programmatic revisions and the ongoing funding. Biko & Assoc. have been

retained to conduct an evaluation of the existing neighborhood funding programs and support. The evaluation work will be a critical element of Neighborhoods 2020.

Staff is recommending no changes to the eligible uses of the Consolidated TIF funds until further work on Neighborhoods 2020 has been completed.